



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. November 18, 2003. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Dennis Johnson
Susan K. Simmons
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon
Bruce Reeder
Drew Black
Casey Maslonka
Brian McGrath
Dennis Fitzpatrick
Charlie Brown
Chris Growney
Matt Freeman
Robert Schmidt
Dona Van Trease
Jim Shakelford
Richelle Sugiyama
John R. Doner

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
REAI
Clearwater Advisors
LBO
Milliman USA
IPEA
IEA
PERSI
PERSI

EXECUTIVE SESSION

Chairman Olson noted that Idaho Code §67-2345(1)(e) permits the Board to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code. Due to the fact that matters of these types were before the Board for consideration, by motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the Board convened in executive session at 8:31 a.m. At 8:55 they reconvened in open session. Chairman Olson said during the Executive Session they had reviewed and discussed matters related to PERSI's involvement or potential involvement in private equity companies that are considered by those companies to be trade secrets.

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Johnson, the Board unanimously approved the minutes of the October 21, 2003, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Second Quarter Private Equity Report: Mr. Maynard told the Trustees that a private equity subcommittee meeting was scheduled following the regular meeting. Information on the potential private equity partnerships was provided to the Trustees.

Mario Gianinni discussed the June 30, 2003 Alternative Investment Review report and provided information on PERSI's private equity holdings. The report stated that as of June 30, 2003, the private equity portfolio commitments totaled \$448.5 million. Hamilton Lane feels that new investments in existing funds are likely to perform better than any over the last five years. They are seeing improved deal flow and some increase in fundraising, but the capital markets will need to further stabilize in order for stronger exit opportunities to emerge.

Monthly Portfolio Update: Mr. Maynard discussed his investment report dated November 16, 2003, which was an update from a version previously provided to the Board. In the report and in his discussion, Mr. Maynard noted the following:

Although the total fund has risen 1.5% since the last Board meeting, the recent sharp rise in the markets appears to have moderated. Despite continued good news on the earnings and economic front, including a spectacular 7.2% rise in GDP in the third quarter and the first indications of a healthy job market, the markets this month have, for the most part, shrugged off the better than expected news and have only experienced moderate gains. The total PERSI fund is now up 9.6% for the fiscal year-to-date, and 20% of the calendar year. All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing within expectations given the markets.

The emerging markets, international portfolios and REITS have the best absolute performance, while bonds have the worst. Zesiger, Brandes and Cap-Guardian have the best relative performance for the fiscal year-to-date, while private equity and Mountain Pacific have the worst.

PERSI's overall performance continues to beat the underlying policy benchmarks (the indexed returns).

Month-to-date returns were reported as 1.1% with a total fund value of \$7,187,658,042. This is an increase in market value for the fiscal year of \$640,487,988. Mr. Maynard discussed individual manager performance and said he does not plan to rebalance this month.

Quarterly TUCS Report: Mr. Maynard reviewed the Third Quarter 2003 Performance Review provided by Russell Mellon Analytical Services. The markets are recovering and our portfolio is responding well as expected in both absolute returns and as compared to peers. PERSI's allocation to equities is larger than those of peers listed in this report; Mr. Maynard explained the ranking comparisons and said his concern is to know the high or low considering our own portfolio allocation. Our TIPS portfolio is doing well as is State Street's Gov/Corp index fund.

401(k) Performance Review: A summary of plan performance is included in Mr. Maynard's monthly report to the Board. Additionally, Mercer Investment Consulting had provided the Third Quarter 2003 report on the PERSI Choice Plan and Mr. Maynard explained how to read the charts in that report. He reviewed the performance of each of the managers and explained their investment types. Chairman Olson said DC plan participants now get the same expert detailed analysis as the DB plan.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Most expect high single-digit returns with some rise in interest rates. Mr. Fitzpatrick expects a very strong economy and earnings growth for the next 12-18 months. He also thinks that in the next two-three years, we can expect inflation with interest rates rising.

EXECUTIVE DIRECTOR

Final FRF Valuation: Actuary Robert Schmidt said the report had been slightly modified since the last Board meeting to accommodate a rule that was passed at that meeting. The rule keeps the amount of the FRF contribution that goes towards paying off excess costs at the same level as before the PERSI contribution rate increase. By motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board unanimously approved the FRF Actuarial Valuation.

COLA Discussion and Decision: Mr. Winkle provided background information on the annual Cost-of-Living Adjustment decision that was before the Board. The Legislature may reject or modify the decision of the

Board if they do so by the 45th day of the coming legislative session. The Board cannot adopt a COLA that would create an unfunded actuarial liability over the 25-year payoff limit. By statute, retirees will receive a 1% increase in their retirement benefit amount effective with their March payment. The Board may also award an additional 1.2% which would be a total of 2.2%, the CPI. Mr. Winkle said the Board may also consider a retro-COLA of .8% that was not awarded last year.

After an in-depth discussion of the issue, Trustee Johnson made a motion to grant a 1.2% discretionary COLA but not the .8% retro COLA. Trustee Ahrens seconded the motion. Trustees Sullivan and Simmons abstained and Trustees Ahrens and Johnson voted in favor of the motion. The motion passed with a vote in favor by Chairman Olson.

FISCAL

FY2003 Audit Adoption: At the October meeting, Auditor Lou Henry had reviewed the Deloitte & Touche independent auditor's report for June 30, 2003. Trustee Simmons said the comments from the auditors have been implemented. By motion duly made by Trustee Simmons and seconded by Trustee Sullivan, the Board adopted the report as presented.

Update and Expense Reports: Financial Officer James Monroe had previously provided a memorandum dated November 10, 2003 to the Trustees which summarized current fiscal items of interest. Discussions continue with Mellon Bank to finalize fees for custody services covering the three years beginning December 1, 2003. Regular and reinstatement interest rates will change effective January 1, 2004 according to Idaho Code and PERSI rule. Reinstatement rate will be 6.17% and regular interest will be 3.22%. Mr. Monroe reviewed the details of the Administration and Portfolio expense reports.

Quarterly Financial Reports: Senior Accountant Rhonda Yadon reviewed the Financial Statements for the Quarter Ended September 30, 2003 and for comparison purposes, 2002. She explained that transfers from fund to fund within the DC plan are no longer being shown as transferring in and out of the plan.

EXECUTIVE DIRECTOR

DC Market Timing Policy Discussion: Mr. Winkle had provided a memorandum dated November 12, 2003 regarding this issue. The media coverage has to do with late trades which is not an issue with the PERSI DC plan. After discussion, the Board directed Mr. Winkle to draft an amendment to our policy stating that rapid trading or market timing is discouraged. Deputy Attorney General Goodsell said if a statement is added to our policy, a remedy needs to be in place to handle infractions of the policy. The Board also directed staff to prepare a recommendation and options for curbing rapid trading and market timing for the next Board meeting.

New Employers: By motion duly made by Trustee Sullivan and seconded by Trustee Johnson, the Board unanimously approved the admission of three new employers to PERSI:

- City of Tetonia effective 11/1/2003
- Fish Haven Area Recreational Sewer District effective 11/1/2003
- Weiser Area Rural Fire District effective 12/1/2003.

Status Update: Mr. Winkle said presentations by investment consultant finalists will be December 16 after the regular Board meeting. Chairman Olson asked if the presentations could follow one another more closely than originally planned. Trustees will check their schedules to see if they are available for such a schedule change.

Mr. Winkle said Federal legislation has stalled regarding House Bill 743 which would require PERSI to report information on the 1099R's that we do not have available. We will continue to watch how the issue is resolved.

Other Business:

Charlie Brown representing the Retired Teachers Association of Idaho thanked the Board for recommending the 2.2% COLA.

Adjournment: There being no further business before the Board, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:55 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director